

**City Of Newport  
Audit Committee Meeting  
City Hall Conference Room A  
Thursday, March 6, 2014**

**Audit Committee Members Present:** David Allen, Laura Swanson, Mark Saelens, Fred Springsteen

**City Staff Present:** Bob Gazewood, Linda Brown, Spencer Nebel, Harmonie Morris

**I. CALL TO ORDER**

The meeting was called to order at 3:05 PM by David Allen.

**II. INTRODUCTIONS**

The Committee welcomed Fred Springsteen as a new member.

**III. APPROVAL OF MINUTES**

Some changes that needed to be changed for the previous minutes were the spelling of names, including Oly Olson and Brent Rhode. No further changes were needed. A motion was made to approve the minutes from the October 30, 2013. The motion carried unanimously.

**IV. PRESENTATION OF CITY FINANCIAL REPORT**

Gazewood began the presentation with discussion of the Auditor's Exit Conference Report. This document basically went through testing documents on audit findings. The specific items discussed were cash reconciliation, user access, and internal controls. At this point, Allen asked Gazewood to point out the difference between a material weakness and a significant deficiency. Gazewood explained that a significant deficiency was less severe than a material weakness. The discussion was about the audit findings, which included significant deficiencies but no material weaknesses. Swanson then asked about these issues that were found by the auditors. Nebel replied that the City was addressing the issues that were posed by the auditors. Saelens also asked about the specific comments that were given by the auditors. Gazewood explained that the comments were there for the City's information and knowledge.

The discussion turned toward the user access and internal control issues that were pointed out by the auditors. Most of the comments made by the auditors were directed toward the Assistant Finance Director, Brown. Springsteen asked whether or not the job description for Brown included the issues, and whether or not the auditors took that into consideration. Brown had needed access to various programs and information due to the nature of the finance department. Brown replied that the high turnover rate and lack of a permanent Finance Director placed her in a position where she needed the access to various programs and information. Nebel also commented that they were looking at this issue. Brown also added that she had been working a lot less than she has had to in the past, due to the lack of other

employees available. Allen also commented that Brown had taken on much of the responsibility of the finance department on her own due to various timing issues. It was also noted that the issues pointed out in the Report should be addressed so that they are not recurring. Nebel agreed, and also pointed out that the finance department is currently looking at restructuring the way things are handled to better the department. Allen also mentioned that the department has been late a few previous years, which was mainly due to the fact that the finance department was severely understaffed. It was also noted that the reports have come in late from the auditors a few times as well. Allen said that the auditors should be held partly at fault for some delay. Swanson suggested that the Committee be open to the possibility of a new auditor.

Gazewood moved on to the last significant deficiency which was another timing issue. He commented that the department is working out these issues as well. Swanson posed some questions as to the nature of accounting and how that process works, as she is unfamiliar with it. More specifically, she wondered how things were checked within the department. Gazewood assured that each transaction has to go through the right person with the proper authority. Nebel also commented that within a small organization, internal controls can be difficult to achieve mainly because of the lack of personnel. Brown mentioned to Swanson that all entries get checked, even if it is not on a timely basis. Swanson turned the attention to the best practices that were in the Report, such as checks not being cashed in a timely manner. Gazewood mentioned that the best practices were a recommendation. There was also a concern about not having the proper insurance on deposits that the City has. Brown and Gazewood both argued that the bank deposits have 100% coverage. Gazewood also pointed out that the auditors could have been pointing to a different issue, such as embezzlement from within the City or a loss of principal on investments. Still, he reassured that the accounts are fully covered. He then went on to discuss the last items in the Report, which included the segregation of duties. Allen commented that it would be helpful to have a suggested number of people that would be needed to properly comply with the auditor's standards. It would also be a good idea to go over job descriptions to ensure everyone is doing all they can.

Lastly, Saelens asked about the end of the Report which included new accounting standards. Gazewood reported that this were not applicable to the City. Springsteen asked overall how the City did on this audit after looking at all the negative aspects of the findings. Gazewood reported that the City's audit was given an unmodified opinion, which is the best opinion one can receive from an audit. Springsteen also asked, because he is new to the Committee, whether or not the exceptions have appeared before within an audit. Gazewood replied that the internal control issues have been there in the past, mainly because the finance department was battling the same staffing issues in the past.

Next, Gazewood went on to the Communication Report given by the auditors for the City Of Newport. On page 1, there was an explanation of the Report. Allen posed the question of whether or not this Report should be posted for the general public. The Committee agreed that

this Report is intended for internal use, as explained in the Report. Allen argued that it could be considered a public document. After a little more discussion, Allen was still for the public posting of the Report, while the rest of the Committee was opposed. Moving on, Gazewood went to page 2, which was the results of the audit and the opinion of the auditors. Again, there was a clean opinion given by the auditors with no exceptions or issues of non-compliance. Allen asked why there was a Management Letter for the Urban Renewal audit but not for the City. Gazewood suggested that perhaps it was due to internal control issues, but he was not sure why both were not given a letter.

Allen asked for timing reasons if Gazewood would just go through and discuss the major highlights of the Report. Gazewood mentioned that the timing of everything is signed off on page 4vii of the Report. Brown discussed the Management Discussion and Analysis as a summary of the audit. She also touched on some financial highlights, which included the net position increase and changes from the prior year. The positive results were mainly due to being conservative in the budget. One example was the property tax revenue, in which the City was concerned about getting funds due to the economy. The previous Finance Director was very conservative, and that paid off. The Capital Projects Fund also increased. There was a decrease that was due to grants. Brown commented that different pages contained certain content; for instance page 4iii was the summary of activities, page 4v was the ending fund balance, and table 3 included the last 3 years. Nebel pointed out that any significant decrease seen was again due to grants received. Swanson said that she would like a Balance Sheet, and the Committee pointed her to page 4vii, which included outstanding debt. Gazewood also pointed out table 6, which included the North Side Fire Station real estate.

The Committee took a break at 4:05 due to the recorder running out of battery.

After a new recorder was found, the meeting again started. Gazewood continued speaking about the Fire Station real estate. In 2018 or 2019, there will be a balloon payment due. Allen asked if there was financing available for this. Gazewood replied that he was not sure of any possibilities. Saelens asked whether or not we were expecting more debt with the addition of the new pool. The overall answer of that was yes, there will be more debt, but some debt will balance from paying down other debt. Brown reported that there was nothing else to report on from the MD&A. She directed the Committee to other pages of the Report that contained important information, such as page 5 which was the net position of the City. The Committee broke things down for Swanson, who did not know much about the financial reports. She went over assets, including cash and accounts receivables. Saelens asked if the City aged the delinquent accounts, which the answer was yes. Brown continued to go over land, transfers and depreciable assets. Nebel then went over liabilities including accounts payable, bonds, and explained them to Swanson in regards to the net position of the City. Allen also commented on what items were due within the year as well as over one year. He also commented on how the short term liabilities are replaced each year. Saelens added that the bottom line was that the

City had enough to pay debt. Gazewood also mentioned that unrestricted funds were those that were not designated to pay anything yet.

After that conversation, Allen asked the Committee what documents were necessary for City Council. The Committee agreed that the Exit Conference, Communication Report, and the MD&A all had information that needed to be referenced, as well as the pension information. Nebel suggested that the Committee flag these things for the Council. He also mentioned that he would send out this information for the next regular Council meeting. Saelens suggested that the Committee make a presentation of this information. Allen agreed and stated that the group will do the total presentation and break it out. Nebel mentioned that the Council will need to make a motion to accept these documents. Allen suggested meeting jointly with the Council and the Audit Committee, and then they could also discuss the idea for a new auditor. The group also discussed the timing issue of this, which would be best to wait early fall of the fiscal year 2014/2015. Nebel also mentioned that the City needs to seek a proposal in the fall from potential auditors as well as from the current auditor. It was also discussed that it has not yet been approved by Council to extend with the present auditors. It was stated that this Committee could recommend getting a new auditor, but will have to check to see how to renew the present auditor. It was agreed that it would be good to change auditors after the new Finance Director has been instated. Swanson then asked about the position of the Finance Director, and Nebel mentioned that the position is now closed and they are awaiting documents from the applicants. He mentioned that he felt good about the applicants.

## **V. PRESENTATION OF URBAN RENEWAL FINANCIAL REPORT**

Gazewood began stating that pages 29 and 30 of the Report are similar to the last Report. Internal control issues were also addressed and explained in the Management Letter. Also, page 3 contained future issues that were not in the City Report.

There was again more discussion about taking this information to City Council. Nebel mentioned that the Audit Committee should meet with the Council first before the meeting, and then continue on with the regular Council meeting. The group recommended 5:30 PM on Monday for this meeting.

The group continued to go through the Report. The Management Letter and Best Practices were discussed, and the pensions under the Urban Renewal were questioned for not being shown. In the Management Letter, Gazewood spoke on page 1, which were findings that were the same as in the prior year audit. Gazewood recommended that the Council monitor these Practices. It was mentioned that the auditors will help with this issue, and that the same was done last year. There was the same comment on the insurance coverage for deposits. Brown mentioned that the Benchmarks are for the Committee, but the group should let the Council know about them. Gazewood mentioned that he would check with the auditors about the content.

Swanson asked about the budget documents and whether or not there will be a lot of paperwork this year. Gazewood and Brown assured that this year the documents will be easier to understand.

#### **VI. EMMA (Electronic Municipal Market Access)**

Gazewood discussed shortly the EMMA. When an audit is issued, this site updates bond issues. This is a report that the City has to submit as a requirement with the bonds. Gazewood reported that it has been done for this year. Nebel mentioned that this should be incorporated in this Report so there would not have to be another motion for the Council.

The group decided that they would allocate all information to be given to the Council before the meeting. The group also agreed that the next meeting should be around May 12-15 with the auditors.

#### **VII. ADJOURNMENT**

With no further business to discuss, the meeting was adjourned at 4:55 PM.